tion with preparation and registration of this Prospectus) are not deductible by a Fund or the Limited Partners. Such costs must be capitalized and may result in a reduction of any gain (or an increase in any loss) realized by the Limited Partners for tax purposes upon the termination of such Fund or disposition of Units.

Any expenses paid by a Fund which constitute organizational expenses also must be capitalized, but may be amortized over a period of not less than 60 months beginning in the month such Fund begins business (as defined under the Code). Under Regulation Section 1.709-2, examples of organizational expenses of a partnership include "legal fees for services incident to the partnership, such as negotiation and preparation of a partnership agreement; accounting fees for establishing a partnership accounting system; and necessary filing fees." If a Fund is liquidated within the 60-month period, such Fund should be able to deduct the balance of the deferred expenses.

Allocation of Fund Income, Gains and Losses

Each Partnership Agreement provides generally that profits and losses for tax purposes ("Profits" and "Losses", respectively) will be determined and allocated as of the end of each calendar year. Profits and Losses will be allocated first to reflect cash distributions made or scheduled to be made (other than as to distributions of capital), and thereafter in a manner designed to reflect cash distributions that, on the basis of certain assumptions, are projected to be made. In addition, each Partnership Agreement provides for special distributions to the extent of available cash to Limited Partners in proportion to interim net investment income and interest prior to the final Closing.

For federal income tax purposes, a partner's distributive share of partnership income, gain, deduction, loss or credit generally is determined in accordance with the terms of the partnership agreement. However, under Code Section 704, the allocation of such items pursuant to a partnership agreement generally either must have "substantial economic effect" or must be "in accordance with the partners' interests in the partnership" to be recognized for federal income tax purposes.

Under Treasury Regulations, an allocation of partnership income, gain, loss or deduction (or item thereof) to a partner will be considered to have "substantial economic effect" if it is determined that (i) the allocation has "economic effect" and (ii) that economic effect is "substantial". An allocation of tax items to partners will be considered to have "economic effect" if (i) the partnership maintains capital accounts in accordance with specific rules set forth in such Regulations and such allocation is reflected through an appropriate increase or decrease in the partners' capital accounts, (ii) liquidating distributions (including liquidations of a partner's interest in the partnership) are required to be made in accordance with the partners' respective capital account balances, and (iii) any partner with a deficit in his, her or its capital account following the distribution of liquidation proceeds would be unconditionally required to restore the amount of such deficit to the partnership. If the first two of these requirements are met, but the partner to whom an allocation is made is not obligated to restore the full amount of any deficit balance in his capital account, the allocation still will be considered to have "economic effect" to the extent the allocation does not cause or increase a deficit balance in the partner's capital account (determined after reducing that account for certain "expected" adjustments, allocations, and distributions specified by the Regulations) if the partnership agreement contains a "qualified income offset".

Each Partnership Agreement provides that a capital account is to be maintained for each Partner, that the capital accounts are to be maintained generally in accordance with applicable tax accounting principles set forth in the Regulations, and that allocations of federal tax items to a Partner are to be reflected by an appropriate increase or decrease in the Partner's capital account except as otherwise permitted by applicable Regulations. In addition, distributions on liquidation of the Fund (or of a Partner's interest) are to be made in accordance with respective positive capital account balances. Although the Partnership Agreement does not impose any obligation on the part of Partners to restore any deficit in their capital account balances following liquidation, the Partnership Agreement does contain a "qualified income offset" provision as defined in the Regulations.

In order for the "economic effect" of an allocation to be considered "substantial", the Regulations require that the allocation must have a "reasonable possibility" of "substantially" affecting the dollar amounts to be received by the partners, independent of tax consequences. In applying the substantiality test, tax consequences that result from the interaction of the allocation with such partner's tax attributes which are unrelated to the partnership must be taken into account.

If any Limited Partners purchase their Units of limited partnership interest at a premium in excess of $1,000 per Unit subscription price, each Partnership Agreement provides for certain adjustments to the capital accounts of the previously admitted Partners, and for special allocations of taxable income and loss to reflect unrealized appreciation in the Fund at the time of admission of the new Limited Partners which is subsequently realized by the Fund. Although the special tax allocations do not have substantial economic effect because they do not affect a Partner's capital account, these adjustments and special allocations are generally consistent with Regulations that permit revaluation of capital accounts and special allocations under circumstances such as the admission of new partners to a partnership.

Based upon the Regulations, subject to the discussion below with respect to section 706(d) of the Code, Counsel is of the opinion that the tax allocations of income, gain, loss, deduction, and credit under the Partnership Agreements for federal income tax purposes would more likely than not be respected in all material respects to the extent such allocations do not result in any Limited Partner having a deficit in his, her or its capital account balance or in the Managing General Partner having a deficit in his capital account in excess of the outstanding principal amount of any MGP Notes to the Fund. Counsel has advised each Fund that allocations to Partners that actually result in such deficit capital account balances likely would not be recognized for federal income tax purposes in the absence of an obligation to restore deficit capital account balances. It is extremely unlikely, however, that either Fund's operations will result in any Limited Partner having a deficit balance in his capital account.

If any allocation fails to satisfy the "substantial economic effect" requirement, the allocated items

would be allocated among the Partners based on their respective interests in the applicable Fund, determined on the basis of all of the relevant facts and circumstances. Such a determination might result in the income, gains, losses or deductions allocated under the applicable Partnership Agreement being reallocated among the Limited Partners and the General Partners. Such a reallocation, however, would not alter the distribution of cash flow under either Partnership Agreement, but might result in a possible mismatching of taxable income and cash distributed to the Partners.

In the event of a transfer of an interest in a Fund during the course of the taxable year of such Fund, tax allocations of income, gain, losses and deductions of such Fund between the transferor and the transferee will be made as described under "Distributions and Allocations -- Determination of Distributions and Allocations Among Limited Partners". Section 706(d) of the Code contains rules governing allocations among the partners whose interests in a partnership vary during the taxable year. It is unclear whether the Fund's method of allocating income between a transferor and a transferee of a Unit will be respected by the IRS and, accordingly, Counsel has expressed no opinion on this matter.

Sale or Other Disposition of a Fund Interest

The amount of gain recognized on the sale by a Limited Partner of his, her or its interest in a Fund generally will be the excess of the sales price received over his, her or its adjusted basis in such interest. The sale by a Limited Partner of an interest held by him, her or it for more than one year generally will result in such Limited Partner recognizing long-term capital gain or loss (provided such Limited Partner is not deemed to be a "dealer" in such property). However, to the extent the proceeds of sale are attributable to such Limited Partner's allocable share of Fund "unrealized receivables" or "substantially appreciated inventory", as defined in Section 751 of the Code, any gain will be treated as ordinary income. It is not anticipated that either Fund will have significant amounts, if any, of "unrealized receivables" or "substantially appreciated inventory" items. The sale by a Limited Partner of an interest held by him, her or it for not more than one year generally will result in the recognition of short-term capital gain or loss. Under current law, the same rates apply to capital gains that

apply to ordinary income. However, there are limitations imposed on the deduction of capital losses against ordinary income. See "Other Tax Considerations -- Capital Gains and Losses".

It is not expected that a transfer of an interest in a Fund by gift or upon death will result in recognition of gain or loss. In general, the recipient of an interest in such Fund by gift will have a tax basis in that interest equal to the transferor's basis increased by the amount of any gift tax paid on the transfer. The recipient of such an interest resulting from a transfer upon death generally would have a tax basis in such interest equal to the fair market value of the interest at the date of death or, where applicable, the estate tax alternate valuation date.

Section 754: Election to Adjust Basis

Section 754 of the Code permits a partnership to make an election to adjust the basis of the partnership's assets in the event of a distribution of partnership property to a partner or a transfer of a partnership interest. Depending upon the particular facts at the time of any such event, such an election could increase the value of a partnership interest to the transferee (because the election would increase the basis of the partnership's assets for the purpose of computing the transferee's allocable share of partnership income, gains, deductions and losses) or decrease the value of a partnership interest to the transferee (because the election would decrease the basis of the partnership's assets for that purpose). It is unlikely that the General Partners would make such an election on behalf of either Fund because (i) an election under Section 754, once made, cannot be revoked without obtaining the consent of the Commissioner of Internal Revenue, (ii) such an election may not necessarily be advantageous to all Limited Partners, and (iii) accounting complexities can result from having such an election in effect.

Termination of the Funds for Tax Purposes

Because of the absence of an established market for the Units, and because investments in a Fund most likely will be made primarily with a view toward realizing long-term capital appreciation, it is not anticipated that 50% or more of the capital and profits interests in either

Fund will be sold or exchanged within any single 12-month period. However, if 50% or more of such interests were sold or exchanged within any single 12-month period, such Fund would be deemed to have terminated for federal income tax purposes. Among other tax consequences, the effect to a Limited Partner of such a deemed termination would be that he, she or it would recognize gain to the extent that his, her or its allocable share of such Fund's cash on the date of termination exceeded the adjusted tax basis of his, her or its interest in such Fund.

Dissolution of the Fund

The dissolution of a Fund will involve the distribution to the Limited Partners of any assets remaining after payment of all such Fund's debts and liabilities. A Limited Partner generally will recognize a capital gain to the extent, if any, he, she or it receives money in excess of the basis of his, her or its interest in such Fund. Unless the Fund distributes any asset in kind, a Limited Partner generally will recognize a capital loss to the extent, if any, that the adjusted basis of his, her or its interest in the Fund exceeds the amount of money received in a liquidation distribution. However, if the Limited Partner receives as a liquidating distribution any property other than money, "unrealized receivables" or "inventory items", then no loss will be recognized.

Income, gain, losses, deductions, credits and items of tax preference of a Fund realized prior to the dissolution of such Fund will be allocated to the Limited Partners in accordance with the Partnership Agreement.

Administrative Matters

Tax Returns and Information; Audits

Each Fund has adopted the calendar year as its tax year. Section 448 of the Code requires entities such as a Fund, in which interests are publicly offered for sale pursuant to a registration statement under the Securities Act of 1933, to adopt an accrual method of accounting for federal income tax purposes. Within 75 days or as soon as practicable after the close of the calendar year, each Fund will furnish each Limited Partner copies of (i) such Fund Schedule K-1 indicating the Partner's distributive share of tax items and (ii) such additional information as is reasonably necessary to

permit the Limited Partners to prepare their own federal, state and local income tax returns.

The Code provides for a single unified audit at the partnership level rather than separate audits of individual partners. Such unified partnership audit procedures may increase the likelihood of IRS audits for organizations such as a Fund. Under this procedure, a "Tax Matters Partner" must be appointed to represent the partnership in connection with IRS audits and other administrative and judicial proceedings. Equitable Capital, or the Managing General Partner, will act as Tax Matters Partner of each Fund. The IRS must send notice of a commencement of a partnership level audit to each partner with 1% or more interest in the partnership and to the Tax Matters Partner. All partners may participate in administrative proceedings relating to the determination of partnership items; however, the Tax Matters Partner has the primary responsibility for representing the partnership in an audit and for contesting any adverse determinations. A settlement agreement between the IRS and one or more partners binds all parties to the agreement, and all other partners not included in such settlement have the right to enter into consistent agreements. The final result of the partnership proceeding will be binding on all partners (other than partners agreeing to or being bound by a separate settlement with the IRS), and any resulting deficiency may be assessed and collected by notice and demand at any time after the determination becomes final.

The Code also provides that (i) a partner must report a partnership item consistent with its treatment on the partnership return, unless the partner files a statement which identifies the inconsistency and (ii) that statute of limitations for assessment of tax with respect to partnership items (or affected items) under the partnership level proceedings generally will be three years from the date of filing of the partnership return or the last date without extension for filing such return, whichever date is later. Notwithstanding the partnership level audit procedures, the IRS may assess a deficiency against any partner where treatment of an item in his individual return is inconsistent with the treatment on the partnership return.

Any costs which a Fund or the General Partners may incur with respect to a "unified" partnership audit

and related administrative or judicial proceedings would reduce the cash otherwise available for distribution to the Partners or would otherwise be borne by the Partners.

Tax Shelter Registration

The Tax Reform Act of 1984 provides that any person who organizes a tax shelter must register such tax shelter with the IRS and provide investors in the tax shelter with the tax shelter registration number assigned by the IRS. A "tax shelter" for purposes of the registration requirements is one in which a person could reasonably infer, from the representations made in connection with any offer for sale of any interest in the investment, that the "tax shelter ratio" for any investor may be greater than 2 to 1 as of the close of any of the first 5 years ending after the date on which the investment is offered for sale. The term "tax shelter ratio" is the ratio that the aggregate amount of gross deductions plus 350% of the credits that are potentially allowable to an investor bears to the partner's investment base for the year.

THE MANAGING GENERAL PARTNER OF EACH FUND REPRESENTS THAT AN INVESTMENT IN SUCH FUND IS NOT PROJECTED TO REDUCE THE CUMULATIVE TAX LIABILITY OF ANY INVESTOR WITH RESPECT TO ANY YEAR OCCURRING WITHIN THE FIRST FIVE YEARS ENDING AFTER THE DATE ON WHICH UNITS OF SUCH FUND ARE FIRST OFFERED FOR SALE IN THE ABSENCE OF EVENTS WHICH ARE HIGHLY UNLIKELY TO OCCUR. THEREFORE, EACH FUND IS NOT INTENDED TO BE A "TAX SHELTER" FOR "TAX SHELTER REGISTRATION" PURPOSES. If, however, the income and deductions of a Fund are such that the cumulative tax liability of a Partner would be reduced in any of the first five years of such Fund's operations, then the Managing General Partner will register such Fund with the IRS as a "tax shelter" at that time, and each Partner would be required to include the "tax shelter" registration number on a form attached to the Partner's income tax return for any year in which any income, gain, deduction, loss or credit was claimed with respect to such Fund, beginning with the year in which such Fund is first registered as a "tax shelter".

Other Tax Considerations

Capital Gains and Losses

(a) Individual Capital Gains. Generally, capital gains of an individual are taxed at the same rates as ordinary income, and capital losses may be deducted in full against capital gains. Capital losses are also allowed to offset up to $3,000 of ordinary income. Capital losses in excess of the amount that can be deducted may be carried forward.

(b) Corporate Capital Gains. The Code provides an alternative tax on capital gains for corporations. Currently, the rate is 34%, the same rate that applies to ordinary income. Corporate taxpayers are allowed to offset capital losses in full against capital gains, but not against ordinary income; however, excess capital losses may generally be carried back three years and carried forward five years.

(c) Proposed Legislation. Various proposals have been made by the Bush Administration and in Congress to treat gains from the sale of certain capital assets more favorably for federal income tax purposes than other types of gain or income. It is unclear whether any of those or any similar proposals will be enacted and, if enacted, when such enacted provisions would be effective.

Alternative Minimum Tax

The alternative minimum tax, as applied to individuals, is determined by: (i) adding "tax preference" items to the individual's adjusted gross income (as reduced by certain itemized deductions and as otherwise adjusted pursuant to Sections 56 and 58 of the Code), (ii) subtracting therefrom the statutory exemption ($30,000 for single taxpayers, $40,000 for married taxpayers filing joint returns; but such exemptions are phased out for alternative minimum taxable incomes above $112,500 for single taxpayers and $150,000 for joint returns) and (iii) computing a tax at the rate of 21% on the amount so calculated. If the alternative tax so computed exceeds the individual's regular tax, then he or she must pay an additional tax equal to the excess.

The corporate alternative minimum tax rate is 20% and there is a $40,000 exemption amount (phased out at

the rate of 25 cents on the dollar for alternative minimum taxable income in excess of $150,000).

Each Limited Partner must include his or her allocable share of a Fund's tax preference items in the computation of the applicable minimum tax. It is anticipated that neither Fund will generate any significant items of tax preference for Limited Partners. Prospective investors are urged to consult their tax advisors with regard to the specific effect of the new alternative minimum tax on an investment in such Fund.

State and Local Taxes

In addition to the federal income tax consequences described above, prospective Limited Partners should consider potential state and local tax consequences of an investment in a Fund. State and local laws often differ from federal income tax law with respect to the treatment of specific items of income, gain, losses, deductions, and credits. A Limited Partner's distributive share of the taxable income or loss of a Fund generally will be required to be included in determining his reportable income for state and local tax purposes in the jurisdiction in which he is a resident. In addition, a number of other states in which such Fund may do business or own properties may impose a tax on nonresident Limited Partners determined with reference to their allocable shares of Fund income derived by such Fund from such state. Partners may be subject to tax return filing obligations and income, franchise, estate, inheritance or other taxes in other jurisdictions in which the Fund does business, as well as their own states or localities of residence or domicile. Also, any tax losses derived through the Fund from operations in such states may be available to offset only income from other sources within the same state. To the extent that a nonresident Limited Partner pays tax to a state by virtue of Fund operations within the state, he may be entitled to a deduction or credit against tax owed to his state of residence with respect to the same income. In addition, estate or inheritance taxes might be payable upon the death of a Partner in a jurisdiction in which such Fund owns property.

Although not presently contemplated, the Funds also may operate in other states or jurisdictions which

impose taxes on a Fund with respect to the activities or income of such Fund therein.

Prospective Limited Partners are urged to consult their tax advisors with respect to possible state and local income and death tax consequences of an investment in a Fund.

Backup Withholding

Distributions to, and proceeds of a sale of Units received by, certain Limited Partners whose Units are held on their behalf by a broker may constitute "reportable payments" under the federal income tax rule regarding backup withholding. Backup withholding, however, would apply only if the Limited Partner (i) failed to furnish his Social Security number or other taxpayer identification number to the person subject to the backup withholding requirement (e.g., the broker) or (ii) furnished an incorrect Social Security number or taxpayer identification number. If backup withholding were applicable to a Limited Partner, the person subject to the backup withholding requirement would be required to withhold 20% of each distribution or, in the case of a sale of Units, of the proceeds to such Partner and to pay such amount to the IRS on behalf of such Partner.

Certain Reporting Requirements

Persons who hold interests in a Fund as a nominee for another person must (i) furnish to such Fund the name and address of such other person and any other information that may be prescribed in regulations and (ii) furnish to such other person the information described in (i) that must be furnished to such Fund.

Limited Partners that sell or exchange Units may be required to notify the Fund in writing of such sale or exchange, in which case the Fund would be required to notify the IRS of such transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply with respect to a sale or exchange by an individual who is a U.S. citizen who effects such sale or exchange through a U.S. broker.

Importance of Obtaining Professional Advice

The foregoing analysis is not intended as a substitute for careful tax planning. The tax matters relating to the Funds and the transactions described herein are complex and are subject to varying interpretations. Moreover, the effect of existing income tax laws and possible changes in such laws will vary with the particular circumstances of each investor. In addition, with the exception of those issues specifically referred to as the subject of the opinion of Counsel to a Fund, no opinion as to the tax consequences of an investment in such Fund has been obtained by such Fund. Accordingly, as previously stated, each prospective Limited Partner should consult with and rely on his, her or its own advisors with respect to the possible tax consequences of an investment in a Fund.

Recently-Enacted Tax Law Changes

The Omnibus Budget Reconciliation Act of 1989 ("OBRA"), which became law in December 1989, enacted provisions denying and/or deferring corporate deductions for original issue discount with respect to certain high yield discount obligations, preventing the carry back of net operating losses generated by interest deductions attributable to leveraged acquisitions or recapitalizations, and denying deductions by certain highly leveraged corporations for interest paid to related entities that are exempt from U.S. tax on such interest. These provisions could have an indirect adverse effect on the Funds and investments therein, for example, by reducing after-tax returns available to investors in the Funds or affecting the price at which Enhanced Yield Investments can be acquired or sold.

Uncertainty in Tax Laws

It should be noted that the provisions of the Code described above do not constitute all of the provisions which might possibly be relevant to an investment in the Funds. Many of these provisions were changed by the Tax Reform Act of 1986, the Omnibus Budget Reconciliation Act of 1987, the Technical and Miscellaneous Revenue Act of 1988 ("TAMRA") and OBRA, many of which changes have not yet been supplemented by corresponding amendments to the Regulations. In addition, certain of the tax rules discussed above may be further amended, modified or

clarified by future legislation or by the IRS or the courts so as to have an adverse effect (directly or indirectly) on the Funds or the Limited Partners. Certain members, for example, have stated their belief that heavily leveraged corporate acquisitions or recapitalizations may be damaging to the economy. In addition, certain proposals have been made to modify or eliminate differences in the federal income tax treatment of corporate debt and equity. If any future legislation were to provide for further limitations on the deductibility of expenses (including interest) with respect to debt incurred in connection with corporate acquisitions or recapitalizations, such action could have an adverse effect on the Funds and investments therein. Because of the uncertainty regarding any future legislative or new actions concerning this issue, investors are encouraged to monitor developments in this area and to consult with their advisers.

CERTAIN TAX AND ERISA CONSIDERATIONS FOR TAX-EXEMPT INVESTORS

Income Tax Considerations

Certain entities, including trusts formed as part of Keogh and corporate pension or profit-sharing plans that are qualified under Section 401(a) of the Code, IRAs and certain charitable and other organizations described in Section 501(c) of the Code ("Tax-Exempt Investor" or "Tax-Exempt Investors"), are generally exempt from federal income tax. However, such entities are subject to federal income tax on their "unrelated business taxable income" ("UBTI"), which arises primarily as certain income from an unrelated business regularly carried on or as income from property with respect to which a tax-exempt entity has incurred "acquisition indebtedness". The definitions of UBTI and "acquisition indebtedness" are discussed below.

Generally, a Tax-Exempt Investor that incurs UBTI is taxed on such income at the regular trust or, in the case of certain entities, corporate federal income tax rates. UBTI is defined as the gross income derived by a Tax-Exempt Investor from an unrelated trade or business less the deductions directly connected with that trade or business, all subject to certain modifications. The tax is imposed directly on and paid out of the assets of the

plan or other Tax-Exempt Investor. In computing UBTI, there are allowed as deductions all expenses that are directly connected with the earning of such income and a specific deduction of $1,000. If the gross unrelated business income does not exceed $1,000 per year, it is not taxable, nor reportable, for federal income tax purposes. Even though a portion of the income of a Tax-Exempt Investor is UBTI, income from other investments that is not UBTI will continue to be exempt from federal income tax. Thus, the receipt of UBTI from a Fund, or otherwise, generally will not affect the tax-exempt status of Limited Partners which are Tax-Exempt Investors. For certain types of Tax-Exempt Investors, however, the receipt of any unrelated business income may have extremely adverse consequences. For example, if a charitable remainder annuity trust or a charitable remainder unitrust (as defined in Section 664 of the Code) receives any UBTI during the year, all of the income from all sources in that year will be taxable. In addition to possible federal income taxation, any UBTI may be subject to state and local income taxation, which may differ in method of computation and amount from the federal tax.

Whether an entity is engaged in a trade or business is a question of fact. Given the nature of the contemplated investment activities of the Funds, Equitable Capital believes, based on the advice of Counsel, that neither Fund should be considered engaged in a trade or business for federal income tax purposes. However, no assurance can be given that the Funds may not be considered at some time to be so engaged. Equitable Capital believes, based on the advice of Counsel, that the reduction of the Investment Advisory Fee payable to Equitable Capital as the result of commitment, break-up and similar transaction fees earned by Equitable Capital should not constitute income to the Funds. It is possible, however, that the IRS will assert that such reduction should be viewed as income to a Fund and that such income should constitute UBTI. In any event, the Code provides that dividends, interest and gains from the sale or exchange of property held for investment generally are excluded from UBTI regardless of whether such income items are derived from a trade or business activity. It is anticipated that virtually all of each Fund's income will be from such sources. Notwithstanding the foregoing, UBTI generally includes a percentage of the gross income (less the same percentage of applicable deductions) derived (with certain exceptions) from property (whether

or not used in an unrelated trade or business) that is subject to acquisition indebtedness. The percentage referred to is that which the average amount of acquisition indebtedness for a taxable year with respect to a property bears to the average adjusted basis for such year for the property. Acquisition indebtedness includes (i) debt incurred in acquiring any property, (ii) debt incurred before the acquisition of any property if the debt would not have been incurred but for such acquisition and (iii) debt incurred after the acquisition of property if the debt would not have been incurred but for such acquisition and if the incurrence of the debt was reasonably foreseeable at the time of the acquisition.

Although any dividends, interest and capital gains derived from a Fund by Tax-Exempt Investors ordinarily would qualify for the statutory exceptions to UBTI (assuming Tax-Exempt Investors do not purchase interests in the Fund with borrowed funds), the Enhanced Yield Fund II anticipates that it will incur acquisition indebtedness in connection with the purchase of its investments. Thus, if the Enhanced Yield Fund II makes investments with borrowed funds, a portion of the gains realized thereafter on disposition of securities and other income of the Fund could be classified as "unrelated debt-financed income" subject to the UBTI. Tax-Exempt Investors generally will not, therefore, be permitted to subscribe for Units in the Enhanced Yield Fund II.

The Enhanced Yield Retirement Fund II, however, is not permitted to incur any such acquisition indebtedness. Tax-Exempt Investors wishing to subscribe for Units in a Fund generally may only subscribe for Units of the Enhanced Yield Retirement Fund II.

Under Section 512(c) of the Code, all of a tax-exempt partner's proportionate share of income from a publicly traded partnership not taxed as a corporation will be subject to tax as UBTI. As discussed above, however, it is not anticipated that either of the Funds will be a publicly traded partnership. See "Classification as a 'Partnership' -- Publicly Traded Partnerships Treated as Corporations". Accordingly, investors in a Fund should not be affected by this provision.

Recently, a proposal was made in Congress to treat as UBTI amounts received (or deemed received under

subpart F of the Code) by certain Tax-Exempt Investors owning at least 10 percent of the stock of a foreign corporation as dividends from such corporation, to the extent attributable to earnings and profits (or subpart F income) of such corporation that would be UBTI if earned directly by such Tax-Exempt Investors. It is not possible to predict whether this or any similar proposal will be enacted and, if enacted, when such enacted proposal would be effective.

ERISA Considerations

The provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), are extremely complex and the status of the Enhanced Yield Retirement Fund II under ERISA may depend on various facts and circumstances. Consequently, each investor which is subject to ERISA should consult with its legal counsel concerning the matters discussed below.

Trust Requirement

ERISA requires that all assets of any employee benefit plan be held in trust by one or more trustees (or, in certain cases, in a qualifying custodial account). The Code imposes similar requirements with respect to an IRA. The Department of Labor has issued a final regulation which provides that, in the case of an investment in a partnership, the trustee requirement will be satisfied if the certificate, contract or other instrument evidencing the employee benefit plans' investment in such partnership is held in trust (or in a qualifying custodial account), regardless of whether the assets of such partnership are also deemed to be "plan assets" under the rules described in the following paragraph.

Prohibited Transaction Rules

ERISA and the Code prohibit certain transactions, including sales of Units in the Enhanced Yield Retirement Fund II, between an employee benefit plan or IRA and a "party in interest" or "disqualified person". Each subscriber investing in a Unit shall represent whether or not it is investing on behalf of an employee benefit plan (whether or not such plan is subject to ERISA's provisions regarding fiduciary responsibility) or IRA and, if so, such investor will be further required to represent that to the best of its knowledge its investment

in the Enhanced Yield Retirement Fund II will not result in a prohibited transaction as defined in Section 406 of ERISA and Section 4975 of the Code.

Those persons proposing to invest on behalf of employee benefit plans or IRAs should also consider whether a purchase of the Units will cause the Enhanced Yield Retirement Fund II's assets to be deemed to be "plan assets" for purposes of the fiduciary responsibility and the prohibited transaction provisions of ERISA and the Code. Neither ERISA nor the Code defines "plan assets". However, under regulations promulgated by the Department of Labor, the assets of certain pooled investment vehicles, including certain partnerships, may be treated as "plan assets". If the assets of the Enhanced Yield Retirement Fund II were deemed to be "plan assets" of employee benefit plans that are Unitholders, transactions involving the assets of such Fund and "parties in interest" or "disqualified persons" with respect to such plans might be prohibited under Section 406 of ERISA and Section 4975 of the Code. A "prohibited transaction", in addition to imposing potential personal liability upon fiduciaries of ERISA plans, may result in the imposition of an excise tax on certain "disqualified persons" with respect to the ERISA plan or IRA.

The Enhanced Yield Retirement Fund II's assets would not be considered to be "plan assets" under ERISA and the Department of Labor regulations so long as, inter alia, the Units are "publicly-offered securities" within the meaning of such regulations. A "publicly-offered security" is a security which is (i) held by 100 or more investors independent of the issuer, (ii) registered under the applicable provisions of the federal securities laws and (iii) freely transferable within the meaning of such regulation. The restrictions on transfer described herein should not preclude the Units of the Enhanced Yield Retirement Fund II from being treated as freely transferable for purposes of such regulations and it is expected that the Units will actually be treated as publicly-offered securities. It should be noted, however, that certain material changes have been made to the provisions of federal income tax laws affecting partnerships since the regulations were promulgated which may result in changes in the definition of freely transferable.

The foregoing discussion is general in nature and is not intended to be all inclusive. Accordingly,

prospective purchasers of Units are urged to consult their own advisors with respect to the considerations associated with the acquisitions and ownership of Units under ERISA and the Code.

Prudence Rule and Other Requirements

Fiduciaries of employee benefits plans and IRAs should also consider whether an investment in the Enhanced Yield Retirement Fund II is consistent with their plan objectives and is in accordance with the documents and instruments governing the plan and their responsibilities under ERISA and the Code such as the requirements that (i) investments be made in a prudent manner, (ii) plan assets be diversified unless it is clearly prudent not to do so, and (iii) the fiduciaries provide benefits for plan participants and beneficiaries and value plan assets annually (which may be difficult given the fact that resales of Units may be sporadic).

CERTAIN FEDERAL TAX CONSIDERATIONS FOR NON-U.S. INVESTORS

The tax treatment applicable to a nonresident alien who invests in a Fund is complex and will vary depending upon the particular circumstances of such Limited Partner. Each non-U.S. investor is urged to consult with his tax counsel concerning the U.S. federal, state and local, and foreign tax treatment of his investment in the Fund. In general, the U.S. tax treatment will vary depending upon whether such Fund is deemed to be engaged in a U.S. trade or business. U.S. trade or business status must be determined annually. However, the Code does not specifically define what constitutes a U.S. trade or business. Instead, such determination must be made based upon an examination of the facts and circumstances attending the particular operations and activities in question. Equitable Capital believes, based on the advice of Counsel, that the reduction of the Investment Advisory Fee payable to Equitable Capital as the result of commitment, break-up and similar transaction fees earned by Equitable Capital should not constitute income to the Fund. It is possible, however, that the IRS will assert that such reduction should be viewed as income to a Fund from a United States trade or business. Nevertheless, given the nature of the investment activities contemplated by the Funds, Equitable Capital believes, based on the

advice of Counsel, and the discussion that follows assumes, that neither Fund will be engaged in a trade or business within the United States.

30% U.S. Withholding Tax on U.S. Source Income Not Derived from a U.S. Trade or Business

A non-U.S. Limited Partner of a Fund will be subject to a 30% (or lower treaty rate) withholding tax with respect to his distributive share of such Fund's U.S. source interest, dividends and most other portfolio or investment income for such year, but will generally be exempt from U.S. taxation on his share of capital gains realized by such Fund, other than gains from the sale of U.S. Real Property Interests as discussed below under "Withholding on Dispositions of U.S. Real Property Interests" if he is not present in the United States for 183 days or more in the calendar year in which the Fund's year ends. Moreover, various statutory exemptions from the 30% (or lower treaty rate) withholding tax apply to interest income from investments in U.S. government securities, commercial paper and bank deposits. Furthermore, an exemption applies to interest derived from certain portfolio debt instruments, as described in Sections 871(h) and 881(c) of the Code. Such interest includes, inter alia, interest paid on a registered debt obligation issued after July 18, 1984, provided that (i) the U.S. person who would otherwise be required to deduct and withhold tax received a statement (i.e., IRS Form W-8) that the beneficial owner of the obligation is not a U.S. person, and (ii) such beneficial owner does not own (directly or indirectly) 10% or more of the voting power of the corporate obligor on such debt instrument and is not a "controlled foreign corporation" related to such corporate obligor. Accordingly, it is anticipated that interest received by the Funds will generally qualify as portfolio interest and that no withholding will be required with respect to a foreign partner's distributive share of such interest income.

If a Fund acquires dividend-paying stock, it should be noted that the Code contains no statutory exemption from the 30% U.S. withholding tax imposed upon dividends received from U.S. sources comparable to the exemptions for interest described in the preceding paragraph. Consequently, unless a non-U.S. Limited Partner is entitled to an exemption from, or reduced rate of, withholding pursuant to an applicable tax treaty, each Fund

would be required to withhold 30% of a foreign Limited Partner's distributive share of such dividends. In lieu of qualifying for a specific exemption from the 30% withholding tax, a non-U.S. Limited Partner who is entitled to tax treaty benefits under an applicable tax treaty with the United States may claim such benefits by properly executing and filing with such Fund, as the withholding agent, an IRS Form 1001 in a timely manner.

U.S. Tax Consequences to Non-U.S. Investors in a Partnership Engaged in a U.S. Trade or Business

If a Fund were considered to be engaged in a U.S. trade or business, a foreign Limited Partner of such Fund would also be considered to be engaged in a U.S. trade or business in such year. Consequently, a non-U.S. Limited Partner would be required to file a U.S. federal income tax return and would be taxed in the United States at graduated federal income tax rates upon that portion of such Partner's net income from such Fund for such year which is "effectively connected" with such business (less such Partner's share of items of deduction and loss which are connected with such portion, so long as the Partner timely files such return). In order to properly rely on the exemption from the 30% (or lower treaty rate) withholding tax with respect to any income that is deemed to be effectively connected with such Fund's U.S. trade or business, a foreign Limited Partner would be required to properly execute an IRS Form 4224 (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States) and file such Form with such Fund in a timely manner.

Under Code Section 1446, as recently amended by TAMRA, if a Fund were considered to be engaged in a U.S. trade or business, such Fund would be required to pay a withholding tax on the portion of its income, computed with certain modifications, that is "effectively connected" with such U.S. trade or business and that is allocable to non-U.S. Limited Partners. The rate used in computing the tax would be (i) the highest U.S. individual rate in the case of such effectively connected income allocable to non-U.S. Limited Partners that are not corporations, and (ii) the highest U.S. corporate rate in the case of such effectively connected income allocable to non-U.S. corporate Partners. Amounts withheld would not be an additional tax on earnings of non-U.S. Limited Partners from a Fund. Instead, non-U.S. Limited Partners

would be allowed tax credits for their shares of withholding tax paid by a Fund. Those credits would be treated as distributions by a Fund to the Partners that are allowed them.

Non-U.S. corporate investors also should be aware that the Code imposes a tax on U.S. branches of foreign corporations which may apply to income from the Partnership derived by certain investors that are corporations. For tax treaty purposes, a non-U.S. Limited Partner of a Fund would be deemed to have a "permanent establishment" in the United States in any year in which such Fund is engaged in a U.S. trade or business.

Withholding on Dispositions of U.S. Real Property Interests

Under the Foreign Investors in Real Property Tax Act ("FIRPTA"), non-U.S. persons are subject to withholding on dispositions of United States Real Property Interests ("USRPIs") which may, in some instances, include stock or other equity interests in United States corporations. A partnership interest is a USRPI to the extent that the partnership holds any interest in USRPIs. Therefore, non-U.S. Limited Partners will be subject to certain withholding with respect to such Partner's distributive shares of a Fund's gain from the sale of a USRPI and may be subject to withholding on certain distributions to them by such Fund and with respect to sales by them of Units if such Fund holds USRPIs.

Recently-Enacted Legislation; Legislative Proposals

OBRA enacted provisions that, under certain circumstances, require increased recordkeeping and reporting for U.S. corporations at least 25 percent of the stock of which (by vote or value) is owned by a non-U.S. investor. In addition, certain proposals have been made in Congress that would subject non-U.S. investors to U.S. tax on gain from sales of stock of U.S. corporations under certain circumstances. It is not possible to predict whether these or similar proposals will be enacted and, if enacted, when such enacted proposals would be effective.

Other Tax Considerations

A nonresident alien's interest in a Fund would be subject to U.S. federal estate taxation if the investor

dies while owning such interest. In addition to U.S. federal income and estate taxes, non-U.S. investors in a Fund may be subject to other taxes, such as state and local income taxes, and estate or inheritance taxes, which may be imposed by various jurisdictions.

The above discussion may not apply to a non-U.S. investor who is separately engaged in a trade or business in the U.S. The above general guidelines are subject to modification by a tax treaty. Moreover, the internal tax rules of the non-U.S. investor's home country must also be considered in determining the advisability of an investment in the Fund.

REGULATION

Investment Company Act

Each Fund has elected to be treated as a "business development company" under the Investment Company Act. The provisions of the Investment Company Act related to business development companies were enacted pursuant to the Small Business Investment Incentive Act of 1980 which became law on October 21, 1980. A Fund may not withdraw such election without first obtaining the approval of a majority in interest of its Limited Partners. The following is a brief description of the business development company provisions of the Investment Company Act, as modified by the Small Business Investment Incentive Act of 1980, and is qualified in its entirety by reference to the full text of the Investment Company Act and the rules thereunder.

A business development company must be operated for the purpose of investing in the securities of certain present and former "eligible portfolio companies" and certain bankrupt, insolvent or financially troubled companies and must generally make available "significant managerial assistance" to such companies. An eligible portfolio company is a U.S. company that is not an investment company (except for wholly-owned small business investment companies ("SBICs") licensed by the Small Business Administration) and that satisfies one of the following conditions: (1) it does not have a class of securities registered on a national securities exchange or included in the Federal Reserve Board's list of over-the-counter securities eligible for margin, (2) it is actively

controlled by the business development company either alone or as part of a group acting together, and an affiliate of the business development company is a member of the portfolio company's board of directors, or (3) it meets such other criteria as may be established by the SEC. Control of a Portfolio Company, under the Investment Company Act, is presumed to exist if the business development company owns 25% of the outstanding voting securities of such company.

"Making available significant managerial assistance" is defined under the Investment Company Act to mean (1) any arrangement whereby a business development company, through its directors, officers, employees or general partners, offers to provide and, if accepted, does provide significant guidance and counsel concerning the management, operations or business objectives or policies of a Portfolio Company, (2) the exercise of a controlling influence over the management or policies of a Portfolio Company by the business development company acting individually or as part of a group of which the business development company is a member acting together which controls such company, or (3) the making of loans to a SBIC. A business development company may satisfy the requirements of clause (1) with respect to a Portfolio Company by purchasing securities of such a company as part of a group of investors acting together if one person in such group provides the type of assistance described in such clause. However, the business development company will not satisfy the general requirement of making available significant managerial assistance if it only provides such assistance indirectly through an investor group. A business development company need only extend significant managerial assistance with respect to Portfolio Companies which are treated as Qualifying Assets (as defined below) for the purpose of satisfying the 70% test discussed below.

The Investment Company Act prohibits or restricts each Fund from investing in certain types of companies, such as securities brokerage firms, insurance companies and investment banking firms. Moreover, under the Investment Company Act a Fund may only acquire Qualifying Assets and certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of any proposed acquisition, less than 70% of the value of such Fund's assets consists of Qualifying Assets. "Qualifying Assets" include:

(1) securities of eligible portfolio companies; (2) securities of bankrupt, insolvent or otherwise financially troubled companies that are not otherwise eligible portfolio companies; (3) securities acquired as follow on investments in companies that were eligible at the time of such Fund's initial acquisition of their securities but are no longer eligible, provided that such Fund has maintained a substantial investment in those companies; (4) securities received in exchange for or distributed on or with respect to any of the foregoing; and (5) cash items, U.S. Treasury securities and high-quality short-term debt. The Investment Company Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for the securities to be considered Qualifying Assets. As a general matter, Qualifying Assets may only be purchased from the issuer or an affiliate in a transaction not constituting a public offering. A business development company may not engage in short sales of securities.

The provisions of the Investment Company Act set forth above may prevent a Fund from purchasing Enhanced Yield Investments which are suitable for investment but which are either not Qualifying Assets or are not issued by a Portfolio Company to which such Fund is in a position to make available significant managerial assistance. The proposed investment may not be made either because a Fund is prohibited from investing in it or because Equitable Capital believes it inadvisable to use up the Fund's flexibility to make non-qualifying investments. The Funds may from time to time choose to seek control of a Portfolio Company but, as a general matter, they do not intend to seek such control and therefore will not generally be able to use such control as a means of satisfying either of the eligible portfolio company or the significant managerial assistance requirements. The decision not to seek control reduces the number of potential issuers in which the Funds may invest, making it more difficult to find suitable investments and causing them to maintain more assets in Temporary Investments for a longer period of time than if they chose to seek control.

Each Fund is permitted by the Investment Company Act, under specified conditions, to issue multiple classes of senior debt and a single class of limited partnership interests senior to the Units if its asset coverage, as defined in the Investment Company Act, is at least 200%

after the issuance of the debt or the senior interests. In addition, provisions must be made to prohibit any distribution to Partners of a Fund which has issued any such interest and to restrict the repurchase of any Units by such Funds unless the asset coverage ratio of such Fund is at least 200% at the time of the distribution or repurchase.

The Investment Company Act limits the ability of the Funds to sell interests at a price representing proceeds to the selling Fund of an amount less than the then net asset value per Unit. Units in the Funds will be sold at a public offering price of $1,000 less any applicable discount in selling commissions and financial advisory fees (such as volume discounts). The public offering price will be adjusted if at any Closing during the offering made hereby the market value of a Unit, based upon the Fund's net asset value plus applicable selling commissions and financial advisory fees, does not closely approximate $1,000 per Unit due to a change in the value of the Fund's investments. This Prospectus will be supplemented to reflect any such change in the public offering price. Any sale of a Unit at a price that represents proceeds to a Fund lower than an amount equal to the net asset value of a Unit may be made only if (i) a majority of the General Partners (including a majority of the Independent General Partners) have determined that such sale would be in the best interests of the Fund and its Partners and (ii) a majority of the General Partners, in consultation with MLPF&S, have determined in good faith that the sales price closely approximates the market value of such Units, less any selling commission and financial advisory fee or discounts thereon.

After the offering, a Fund may sell its securities at a price that is below the prevailing net asset value per Unit only upon the approval of the policy by Limited Partners holding a majority of the Units issued by such Fund, including a majority of Units held by non-affiliated Limited Partners. Neither Fund will repurchase Units nor engage in a self-tender.

Most of the transactions involving a Fund and its affiliates (as well as affiliates of those affiliates) require the prior approval of a majority of the Independent General Partners of such Fund having no financial interest in the transactions. However, transactions involving certain closely affiliated persons of a Fund,